

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>TAWAS AREA SCHOOLS</b>	County <b>IOSCO</b>
Audit Date <b>06/30/2005</b>	Opinion Date <b>08/03/2005</b>	Date Accountant Report Submitted to State: <b>10/19/2005</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>			
Street Address <b>325 NEWMAN STREET, PO BOX 592</b>	City <b>EAST TAWAS</b>	State <b>MI</b>	ZIP <b>48730</b>
Accountant Signature  <b>Donald W. Brannan CPA</b>		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02-05'00'	



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2005

**AUDITORS' REPORT**

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 7
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
<b><u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u></b>	
EXHIBIT A            STATEMENT OF NET ASSETS	8
EXHIBIT B            STATEMENT OF ACTIVITIES	9
<b><u>FUND FINANCIAL STATEMENTS</u></b>	
EXHIBIT C            BALANCE SHEET - GOVERNMENTAL FUNDS	10
EXHIBIT D            RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	11
EXHIBIT E            STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	12
EXHIBIT F            RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	13
EXHIBIT G            STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUND	14
EXHIBIT H            NOTES TO FINANCIAL STATEMENTS	15 - 29
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
EXHIBIT I            STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	30
<b><u>OTHER INFORMATION</u></b>	
<b><u>COMBINING STATEMENTS - NONMAJOR FUNDS</u></b>	
EXHIBIT J            COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	31
EXHIBIT K            COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	32
<b><u>INDIVIDUAL FUND SCHEDULES</u></b>	
EXHIBIT L            GENERAL FUND - DETAILS OF REVENUE COMPARED TO BUDGET	33
EXHIBIT M            GENERAL FUND - DETAILS OF EXPENDITURES COMPARED TO BUDGET	34 - 38
EXHIBIT N            ALL SPECIAL REVENUE FUNDS - STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL	39
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	40



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

August 3, 2005

## Independent Auditors' Report

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2005, on our consideration of Tawas Area Schools', Iosco County, Michigan, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tawas Area School's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & Co., P.C.*



# Tawas Area Schools

245 West M-55 • Tawas City, MI 48763  
Jerry W. Youngs, Superintendent  
Telephone (989) 984-2250 • Fax (989) 984-2253



As management of the Tawas Area Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Sinking Fund, Debt Retirement Fund, Food Service Fund and Athletics Fund.

## FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall conditions of all funds, governmental activities and business type activities, remained relatively stable for the district during the 2004-2005 school year. Goals related to financial activities were met. However, this was only accomplished as a result of cutting supplies, extra trips, field trips, conferences, reducing the teaching staff by seven, reducing the support staff by two, and switching the insurance plan for administrators along with instituting a total wage freeze for all administrators. Future revenue projections are murky at best as Michigan's revenue projections will probably miss their target goals again by millions of dollars. This could mean a cut in the promised foundation allocation mid year. Economic forecasts for future years do not seem to offer much good news. As we move into the 2005-2006 school year we are very concerned with the huge increase in cost projections for diesel fuel and utilities, as well as increasing costs for insurance, retirement and labor. Our ability to maintain our fund balance will be tenuous at best.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,533,474 (net assets). Of this amount, \$627,903 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

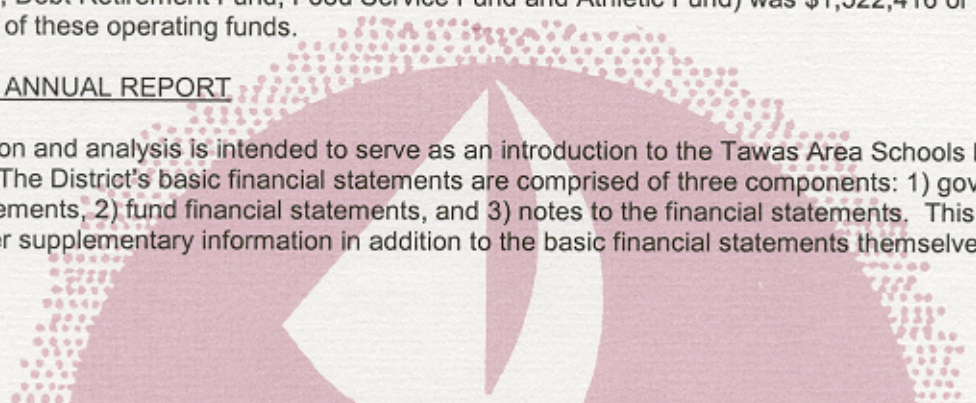
The District's total net assets increased by \$306,907. This represents decreases in ongoing expenditures which exceeded decreases in ongoing revenues.

As of the close of the current fiscal year, the District's governmental funds reported combined ending funds balances of \$1,522,416, an increase of \$173,684 in comparison with the prior year. Virtually this entire amount is available for spending at the District's discretion (unreserved fund balance).

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (General Fund, Sinking Fund, Debt Retirement Fund, Food Service Fund and Athletic Fund) was \$1,522,416 or 12% of the total expenditures of these operating funds.

## USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Tawas Area Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

A large, stylized graphic of a sailboat's sail and mast, rendered in a light pink color with a dotted pattern, positioned behind the text.

**"Education; The Foundation of Our Community"**



TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the Tawas Area School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, and food service.

The government-wide financial statements can be found in Exhibits A and B of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

The District maintains 5 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and sinking fund which are both considered to be a major fund. Data from the other 3 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budgets.

The basic governmental fund financial statements can be found in Exhibits C and E of this report.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found in Exhibit G of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are presented in Exhibit H of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in Exhibit I of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found in Exhibits J and K of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplemental Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The School District's net assets were \$6,533,474 at June 30, 2005. Of this amount, \$627,903 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the School District's governmental activities.

TABLE 1  
NET ASSETS

	<u>Governmental Activities</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current Assets	\$ 2,344,086	\$ 2,259,255
Noncurrent Assets	<u>10,369,778</u>	<u>10,647,979</u>
Total Assets	<u>12,713,864</u>	<u>12,907,234</u>
Current Liabilities	837,787	928,023
Noncurrent Liabilities	<u>5,342,603</u>	<u>5,752,644</u>
Total Liabilities	<u>6,180,390</u>	<u>6,680,667</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 1  
NET ASSETS

	<u>Governmental Activities</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>Net Assets</u>		
Invested in Capital Assets – Net of Debt	\$ 5,518,661	\$ 5,380,479
Restricted	386,910	258,400
Unrestricted	<u>627,903</u>	<u>587,688</u>
Total Net Assets	<u>\$ 6,533,474</u>	<u>\$ 6,226,567</u>

The \$627,903 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$627,903 left.

TABLE 2  
CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 471,171	\$ 399,056
Operating Grants and Contributions	7,497,791	7,851,690
General Revenues:		
Current Property Taxes	4,381,021	4,213,876
Investment Earnings	28,074	11,609
Miscellaneous	<u>15,201</u>	<u>17,912</u>
Total Revenues	<u>12,393,258</u>	<u>12,494,143</u>
Functions/Program Expenses:		
Instruction	7,451,134	7,787,134
Supporting Services	3,256,388	3,276,328
Community Services	2,512	2,395
Food Services	473,926	472,761
Athletics	220,705	243,805
Interest on Long-Term Debt	169,539	192,970
Other Expenses	165	0
Unallocated Depreciation	<u>511,982</u>	<u>549,490</u>
Total Functions/ Program Expenses	<u>12,086,351</u>	<u>12,524,883</u>
Increase (Decrease) in Net Assets	306,907	(30,740)
Beginning Net Assets	<u>6,226,567</u>	<u>6,257,307</u>
Ending Net Assets	<u>\$ 6,533,474</u>	<u>\$ 6,226,567</u>

Governmental activities increased the District's net assets by \$306,907.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

As reported in our Statement of Activities in Exhibit B the cost of all of our governmental activities this year was \$12,086,351. However, the amount that our taxpayers ultimately financed for these activities through the School District was only \$4,381,021 because some of the cost was paid by those who benefited from the programs (\$471,171), by other governments and organizations who subsidized certain programs with grants and contributions (\$7,497,791), and by miscellaneous sources (\$43,275).

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The District's budgets are prepared according to Michigan law. The budgeted funds are the General Fund, the School Lunch Fund and the Athletics Fund.

During the year ended June 30, 2005, the District amended the budgets of these governmental funds a couple of times, none significantly.

**General Fund**

The general fund actual revenue was \$11,068,193. The amount is above the original budget estimates of \$10,816,929 and above the final amended budget of \$11,066,193. The variance between the actual revenues, the original budget and the final budget was the result of increased revenues from various sources.

The actual expenditures of the general fund were \$10,878,353, which is below the original budget estimates of \$11,348,488 and the final amended budget of \$10,887,039. The variance between the actual expenditures, the original budget, and final budget was due to spending cuts.

The General Fund had total revenues of \$11,068,193 and total expenditures of \$10,878,353 with an ending fund balance of \$1,120,810.

**TOTAL REVENUES**

The total revenues of the School District were \$12,387,504. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$7,968,962 or 64% of total revenues of \$12,387,504.

**GOVERNMENTAL FUND EXPENDITURES**

Total governmental fund expenditures amounted to \$12,219,574. The governmental funds had a net gain in fund balance of \$173,684. The ending fund balance for all governmental funds was \$1,522,416 which represents 12% of current year expenditures. This fund balance will be used to cover increases in operation and decreases in state revenue in future years.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2005, the District had \$17,993,381 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$7,743,289 in depreciation has been taken over the years. We currently have net book value of \$10,250,092. Total additions for the year were \$245,953.

**Long-Term Debt**

At June 30, 2005, the District had \$4,835,000 in bonds outstanding which represent general obligation bonds of the District.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2005

State statutes limit the amount of general obligation debt that a School District may issue. The current debt limitation for the School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Exhibit H, Note 6 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates have declined to the point that 2005-2006 funding is uncertain. These factors were considered in preparing the Tawas Area School's budgets for the 2005-2006 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Tawas Area School's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Jerry Youngs  
Superintendent  
Tawas Area Schools  
245 W. M-55  
Tawas City, MI 48763  
Office Telephone (989) 984-2250

## TAWAS AREA SCHOOLS

Iosco County, Michigan

## STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 2)	\$ 1,087,870
Receivables:	
Accounts	16,545
State of Michigan (Note 3)	1,219,983
Taxes	1,288
Due from local units	4,136
Inventory: (Note 1)	
Supplies	3,471
Building trades home lot	10,793
Bond issuance costs - net (Note 1)	119,686
Capital assets - net (Note 5)	<u>10,250,092</u>
 Total Assets	 <u>12,713,864</u>
<u>Liabilities</u>	
Accounts payable	171,129
Salaries payable	528,934
Employee benefits payable	121,607
Interest payable	16,117
Long-term liabilities:	
Due within one year (Note 6)	731,001
Due in more than one year	<u>4,611,602</u>
 Total Liabilities	 <u>6,180,390</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,518,661
Restricted for:	
Food service	33,267
Debt retirement	51,347
Capital projects	302,296
Unrestricted	<u>627,903</u>
 Total Net Assets	 <u>\$ 6,533,474</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005

		Program Revenues		Net (Expenses) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Government Type Activities
Instruction	\$ 7,451,134	\$ 40,314	\$ 5,244,863	\$ (2,165,957)
Supporting services	3,256,388	82,110	1,969,312	(1,204,966)
Community services	2,512	59,721	0	57,209
Food services	473,926	228,840	262,790	17,704
Athletics	220,705	60,186	20,826	(139,693)
Interest on long-term debt	169,539	0	0	(169,539)
Other expenses	165	0	0	(165)
Unallocated depreciation	<u>511,982</u>	<u>0</u>	<u>0</u>	<u>(511,982)</u>
Total	<u>\$ 12,086,351</u>	<u>\$ 471,171</u>	<u>\$ 7,497,791</u>	<u>(4,117,389)</u>
General purpose revenue:				
Current property taxes				4,381,021
Investment earnings				28,074
Miscellaneous				<u>15,201</u>
Total general purpose revenue				<u>4,424,296</u>
Change in net assets				306,907
Net assets - beginning				<u>6,226,567</u>
Net assets - ending				<u>\$ 6,533,474</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
June 30, 2005

	General Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents (Note 2)	\$ 687,244	\$ 304,024	\$ 96,602	\$ 1,087,870
Receivables:				
Accounts	16,545	0	0	16,545
State of Michigan (Note 3)	1,219,983	0	0	1,219,983
Taxes	1,091	50	147	1,288
Due from local units	4,136	0	0	4,136
Due from other funds (Note 8)	1,778	0	0	1,778
Inventory: (Note 1)				
Supplies	0	0	3,471	3,471
Building trades home lot	10,793	0	0	10,793
Total Assets	<u>\$ 1,941,570</u>	<u>\$ 304,074</u>	<u>\$ 100,220</u>	<u>\$ 2,345,864</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	\$ 170,219	\$ 0	\$ 910	\$ 171,129
Salaries payable	528,934	0	0	528,934
Employee benefits payable	121,607	0	0	121,607
Due to other funds (Note 8)	0	1,778	0	1,778
Total liabilities	<u>820,760</u>	<u>1,778</u>	<u>910</u>	<u>823,448</u>
<u>Fund Equity</u>				
Fund balances:				
Reserved:				
Food service fund	0	0	33,267	33,267
Debt retirement fund	0	0	51,347	51,347
Capital projects fund	0	302,296	0	302,296
Unreserved, reported in:				
General fund	1,120,810	0	0	1,120,810
Special revenue funds	0	0	14,696	14,696
Total fund equity	<u>1,120,810</u>	<u>302,296</u>	<u>99,310</u>	<u>1,522,416</u>
Total Liabilities and Fund Equity	<u>\$ 1,941,570</u>	<u>\$ 304,074</u>	<u>\$ 100,220</u>	<u>\$ 2,345,864</u>

The accompanying notes to financial statements are an integral part of this statement.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2005

Total governmental fund balances:		\$ 1,522,416
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 17,993,381	
Capital asset accumulated depreciation	<u>(7,743,289)</u>	
		10,250,092
Accrued interest on long-term debt		(16,117)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Bonds payable (net)	(4,715,314)	
Compensated absences payable	(118,339)	
Retirement incentive liability	<u>(389,264)</u>	
Total long-term liabilities		<u>(5,222,917)</u>
Total net assets - governmental activities		<u>\$ 6,533,474</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2005

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Local sources:				
Current property taxes	\$ 3,631,683	\$ 191,392	\$ 557,946	\$ 4,381,021
Lunch sales	0	0	224,351	224,351
Gate receipts	0	0	56,277	56,277
Community education - tuition	59,721	0	0	59,721
Medicaid fee for service	40,314	0	0	40,314
Interest on investments	19,917	2,780	5,377	28,074
Contributions	10,826	0	10,000	20,826
Other	51,746	0	17,258	69,004
State sources	6,754,472	0	33,360	6,787,832
Federal sources	430,290	0	220,570	650,860
Interdistrict sources	69,224	0	0	69,224
Total revenue	<u>11,068,193</u>	<u>194,172</u>	<u>1,125,139</u>	<u>12,387,504</u>
<u>Expenditures</u>				
Current:				
Instruction	7,434,394	0	0	7,434,394
Support services	3,268,169	0	0	3,268,169
Community services	2,512	0	0	2,512
Food services	0	0	473,926	473,926
Athletics	0	0	220,705	220,705
Debt service:				
Principal retirement	0	0	415,000	415,000
Interest and fiscal charges	0	0	158,750	158,750
Capital outlay	173,278	72,675	0	245,953
Other	0	165	0	165
Total expenditures	<u>10,878,353</u>	<u>72,840</u>	<u>1,268,381</u>	<u>12,219,574</u>
Excess of revenue over (under) expenditures	<u>189,840</u>	<u>121,332</u>	<u>(143,242)</u>	<u>167,930</u>
<u>Other Financing Sources (Uses)</u>				
Sale of fixed assets	5,754	0	0	5,754
Operating transfers in	10,000	0	152,048	162,048
Operating transfers out	(152,048)	0	(10,000)	(162,048)
Total other financing sources (uses)	<u>(136,294)</u>	<u>0</u>	<u>142,048</u>	<u>5,754</u>
Excess of revenue and other sources over (under) expenditures and other uses	53,546	121,332	(1,194)	173,684
Fund balances - beginning of year	<u>1,067,264</u>	<u>180,964</u>	<u>100,504</u>	<u>1,348,732</u>
Fund balances - end of year	<u>\$ 1,120,810</u>	<u>\$ 302,296</u>	<u>\$ 99,310</u>	<u>\$ 1,522,416</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005

Total net change in fund balances - governmental funds		\$ 173,684
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current year depreciation expense	\$ (511,982)	
Capital outlays reported in the governmental funds	<u>245,953</u>	
Net difference		(266,029)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.		
		415,000
Net change in accrued interest payable:		
Accrued interest on long-term liabilities June 30, 2004	17,500	
Accrued interest on long-term liabilities June 30, 2005	<u>(16,117)</u>	
		1,383
Amortization of deferred bond costs		(12,172)
Net change in early retirement incentives:		
Early retirement incentives June 30, 2004	340,261	
Early retirement incentives June 30, 2005	<u>(389,264)</u>	
		(49,003)
Net change in accrued compensated absences:		
Accrued compensated absences June 30, 2004	162,383	
Accrued compensated absences June 30, 2005	<u>(118,339)</u>	
		<u>44,044</u>
Change in net assets of governmental activities		<u>\$ 306,907</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
losco County, MichiganSTATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2005

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and cash equivalents (Note 2)	\$ <u>136,298</u>
<u>LIABILITIES</u>	
Due to student groups	\$ <u>136,298</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas Area Schools conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Tawas Area Schools (School District) is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Tawas Area Schools Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by Tawas Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Sinking Fund – The Sinking Fund accounts for the acquisition or construction of major capital facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalent s

During the fiscal year ended June 30, 2005, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements are stated at cost and are expensed when used.

Inventory on fund financial statements are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Inventory - Building Trades Home and Lots

Inventory represents the cost of property purchased for a future building site.

I. Deferred Charges

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

For governmental fund financial statements, the liability is not reported until it becomes due for payment. The amount of accumulated sick and vacation pay liability for Tawas Area Schools was \$118,339, of which \$117,737 is current.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

O. Property Taxes

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

P. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2004 - August, 2005. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

Q. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2005.

T. Economic Dependency

The School District received approximately 60% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

U. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

V. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Projects Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Tawas Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	<u>\$ 1,087,870</u>	<u>\$ 136,298</u>	<u>\$ 1,224,168</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank deposits (checking and savings accounts)	\$ 334,257
Investments in financial institution pooled funds	889,011
Petty cash and cash on hand	<u>900</u>
Total	<u>\$ 1,224,168</u>

As of June 30, 2005, the School District had the following investments .

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 889,011</u>	Daily

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2005, the School District's investment in the investment pool was rated AAAM by Standards & Poor's.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2005, \$339,905 of the School District's bank balance of \$471,128 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's investment policy which is in accordance with State law.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The School District's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>Governmental Activities</u>	<u>Amount</u>
State Aid	<u>\$ 1,219,983</u>

NOTE 4 - SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2005.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	<u>\$ 150,525</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 150,525</u>
Capital Assets Being Depreciated:				
Buildings and additions	13,456,052	0	0	13,456,052
Site improvements	1,512,198	64,788	0	1,576,986
Equipment and furniture	913,393	117,094	0	1,030,487
Vehicles	189,606	13,070	(23,640)	179,036
Buses	1,308,298	51,001	(135,550)	1,223,749
Education media and textbooks	<u>376,546</u>	<u>0</u>	<u>0</u>	<u>376,546</u>
Subtotal	<u>17,756,093</u>	<u>245,953</u>	<u>(159,190)</u>	<u>17,842,856</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<u>Governmental Activities</u>				
Less Accumulated Depreciation for:				
Buildings and additions	\$ (4,430,467)	\$ (263,497)	\$ 0	\$ (4,693,964)
Site improvements	(910,023)	(57,197)	0	(967,220)
Equipment and furniture	(528,844)	(88,170)	0	(617,014)
Vehicles	(123,210)	(18,701)	23,640	(118,271)
Buses	(1,021,407)	(84,417)	135,550	(970,274)
Education media and textbooks	<u>(376,546)</u>	<u>0</u>	<u>0</u>	<u>(376,546)</u>
Subtotal	<u>(7,390,497)</u>	<u>(511,982)</u>	<u>159,190</u>	<u>(7,743,289)</u>
Capital Assets Being Depreciated	<u>10,365,596</u>	<u>(266,029)</u>	<u>0</u>	<u>10,099,567</u>
Governmental Activities Total				
Capital Assets – Net of Depreciation	<u>\$ 10,516,121</u>	<u>\$ (266,029)</u>	<u>\$ 0</u>	<u>\$ 10,250,092</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 6 - LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

	Date of Contract	Principal Due	Interest on Note	Total Obligation
The bonds dated March 27, 2003 which bear interest from 2% to 3.6% are due serially each May 1 through 2015.	2003	<u>\$ 4,835,000</u>	<u>\$ 913,620</u>	<u>\$ 5,748,620</u>

The annual principal and interest requirements for the years after June 30, 2005 for the General Obligation Bonds are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 420,000	\$ 150,200	\$ 570,200
2007	430,000	141,800	571,800
2008	445,000	128,900	573,900
2009	455,000	115,550	570,550
2010	475,000	101,900	576,900
2011-2015	<u>2,610,000</u>	<u>275,270</u>	<u>2,885,270</u>
Total	<u>\$ 4,835,000</u>	<u>\$ 913,620</u>	<u>\$ 5,748,620</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate sick and vacation pay days. The amount of accumulated sick and vacation pay liability for the Tawas Area Schools at June 30, 2005 was \$118,339, of which \$117,737 was the estimated current portion.

C. Retirement Incentive Payable

The School District has two retirement incentive programs, Option A was offered to all teachers actively employed by the District and not on leave, who have thirty (30) or more years of retirement credit, or are in the process of purchasing or willing to purchase service credit to get them to (30) years of credit by June 30, 2005. Option B was offered to all teachers who are actively employed with the District and not on leave, who are fifty-five (55) years of age and meet the requirements of the State of Michigan Public School Retirement Law and are able to receive State of Michigan retirement benefits at a reduced amount. The amount of retirement incentive liability for Tawas Area Schools at June 30, 2005 was \$389,264, of which \$193,264 was the estimated current portion.

D. Advance Refunding

On March 27, 2003, the School District issued \$5,645,000 of 2003 Refunding Bonds to refund the remaining portion of the 1993 General Obligation Refunding Bonds, and to pay certain costs and expenses relating to the issuance of the 2003 Refunding Bonds. Details of the refunding are as follows:

Total Debt Service for the 1993 Refunded Bonds	\$ 7,664,638
Total Debt Service for the 2003 Refunding Bonds	<u>6,899,236</u>
Total change in Debt Service	765,402
Less: Debt Service Funds to Escrow	<u>140,365</u>
Net Savings (Net of Cost of Issuance)	<u>\$ 625,037</u>

Total expenses of issuing the 2003 Refunding Bonds, including the underwriters discount and compensation, bond insurance, legal and accounting and other costs and premium paid on the early payment of the 1993 bonds in the amount of \$146,058 are being amortized over the remaining life of the outstanding bonds using the straight-line method. For the year ended June 30, 2005, the total amortization was \$12,172.

TAWAS AREA SCHOOLS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)E. Changes in Long-Term Liabilities

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amount Due In One Year
<u>Governmental Activities</u>					
Bonds payable	\$ 5,250,000	\$ 0	\$ 415,000	\$ 4,835,000	\$ 420,000
Early retirement incentive	340,261	49,003*	0	389,264	193,264
Compensated absences	<u>162,383</u>	<u>0</u>	<u>44,044*</u>	<u>118,339</u>	<u>117,737</u>
Total long-term liabilities	<u>\$ 5,752,644</u>	<u>\$ 49,003</u>	<u>\$ 459,044</u>	<u>\$ 5,342,603</u>	<u>\$ 731,001</u>

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$158,500.

\*Represents net of additions and retirements for the year.

NOTE 7 - OPERATING TRANSFERS

During the year ended June 30, 2005 the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 10,000	\$ 152,048
Non-major Governmental Funds	<u>152,048</u>	<u>10,000</u>
	<u>\$ 162,048</u>	<u>\$ 162,048</u>

Individual transfers for the year ended June 30, 2005 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 10,000	Athletic Fund	\$ 10,000
Athletic Fund	<u>152,048</u>	General Fund	<u>152,048</u>
Total	<u>\$ 162,048</u>	Total	<u>\$ 162,048</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

TAWAS AREA SCHOOLS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 1,778	\$ 0
Sinking Fund	<u>0</u>	<u>1,778</u>
Total Major Governmental Funds	<u>\$ 1,778</u>	<u>\$ 1,778</u>

The amounts of interfund receivables and payables for individual funds as of June 30, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	<u>\$ 1,778</u>	Sinking Fund	<u>\$ 1,778</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 9 - RETIREMENT PLANSDefined Benefit Plan

The School District contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 9 - RETIREMENT PLANS (CONTINUED)

During the plan fiscal year 2004, employer contributions were 12.99% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2004, the contribution rate increased to 14.87% of covered compensation. The contribution requirements of plan members and Tawas Area School District are established and may be amended by the MPSERS Board. The School District's contributions to MPSERS for the years ending June 30, 2005, 2004 and 2003 were \$964,435, \$894,415 and \$930,950, respectively, equal to the required contributions for each year.

The MPSERS also provides for death and disability benefits which are established by state statute. Under the MPSERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPSERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

Effective September 1, 2002, the District offered its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the plan totaled \$45,160 for the year ended June 30, 2005.

The School District also offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program they must continue until completion of the purchase of the service credit or termination of employment from Tawas Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$93,175 for the year ended June 30, 2005.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$336,912 for the year ended June 30, 2005. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 10 - SINKING FUND

The Capital Projects Fund records capital project activities funded with Sinking Fund Millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 12 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$4,867 as of June 30, 2005.

NOTE 13 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 14 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2005, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

NOTE 15 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements, Exhibits L & M, in order to provide an understanding of changes in the School District's financial position and operations. Some prior year balances have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS AREA SCHOOLS  
Losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local sources	\$ 3,515,085	\$ 3,813,296	\$ 3,814,207	\$ 911
State sources	6,763,705	6,754,488	6,754,472	(16)
Federal sources	512,999	430,291	430,290	(1)
Interdistrict sources	<u>25,140</u>	<u>68,118</u>	<u>69,224</u>	<u>1,106</u>
Total revenue	<u>10,816,929</u>	<u>11,066,193</u>	<u>11,068,193</u>	<u>2,000</u>
<u>Expenditures</u>				
Current:				
Instruction	9,005,564	7,438,884	7,434,394	4,490
Support services	2,340,079	3,271,865	3,268,169	3,696
Community services	2,845	2,513	2,512	1
Capital outlay	<u>0</u>	<u>173,777</u>	<u>173,278</u>	<u>499</u>
Total expenditures	<u>11,348,488</u>	<u>10,887,039</u>	<u>10,878,353</u>	<u>8,686</u>
Excess of revenue over (under) expenditures	<u>(531,559)</u>	<u>179,154</u>	<u>189,840</u>	<u>10,686</u>
<u>Other Financing Sources (Uses)</u>				
Sale of fixed assets	0	5,754	5,754	0
Operating transfers in	0	10,000	10,000	0
Operating transfers out	<u>(170,708)</u>	<u>(152,051)</u>	<u>(152,048)</u>	<u>3</u>
Total other financing sources (uses)	<u>(170,708)</u>	<u>(136,297)</u>	<u>(136,294)</u>	<u>3</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(702,267)</u>	<u>42,857</u>	<u>53,546</u>	<u>10,689</u>
Fund balances - beginning of year	<u>1,067,264</u>	<u>1,067,264</u>	<u>1,067,264</u>	<u>0</u>
Fund balances - end of year	<u>\$ 364,997</u>	<u>\$ 1,110,121</u>	<u>\$ 1,120,810</u>	<u>\$ 10,689</u>

## OTHER INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2005

	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>Debt Retirement Fund</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 30,706	\$ 14,696	\$ 51,200	\$ 96,602
Receivables:				
Taxes	0	0	147	147
Inventory:				
Supplies	<u>3,471</u>	<u>0</u>	<u>0</u>	<u>3,471</u>
Total Assets	<u>\$ 34,177</u>	<u>\$ 14,696</u>	<u>\$ 51,347</u>	<u>\$ 100,220</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	<u>\$ 910</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 910</u>
<u>Fund Equity</u>				
Fund balances:				
Reserved:				
Food service fund	33,267	0	0	33,267
Debt retirement fund	0	0	51,347	51,347
Unreserved, reported in:				
Special revenue funds	<u>0</u>	<u>14,696</u>	<u>0</u>	<u>14,696</u>
Total fund equity	<u>33,267</u>	<u>14,696</u>	<u>51,347</u>	<u>99,310</u>
Total Liabilities and Fund Equity	<u>\$ 34,177</u>	<u>\$ 14,696</u>	<u>\$ 51,347</u>	<u>\$ 100,220</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2005

	Food Service Fund	Athletic Fund	Debt Retirement Fund	Total Other Governmental Funds
<u>Revenue</u>				
Local sources:				
Current property taxes	\$ 0	\$ 0	\$ 557,946	\$ 557,946
Lunch sales	224,351	0	0	224,351
Gate receipts	0	56,277	0	56,277
Interest on investments	245	99	5,033	5,377
Contributions	0	10,000	0	10,000
Other	13,349	3,909	0	17,258
State sources	33,360	0	0	33,360
Federal sources	220,570	0	0	220,570
Total revenue	<u>491,875</u>	<u>70,285</u>	<u>562,979</u>	<u>1,125,139</u>
<u>Expenditures</u>				
Current:				
Food services	473,926	0	0	473,926
Athletics	0	220,705	0	220,705
Debt service:				
Principal retirement	0	0	415,000	415,000
Interest and fiscal charges	0	0	158,750	158,750
Total expenditures	<u>473,926</u>	<u>220,705</u>	<u>573,750</u>	<u>1,268,381</u>
Excess of revenue over (under) expenditures	<u>17,949</u>	<u>(150,420)</u>	<u>(10,771)</u>	<u>(143,242)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	152,048	0	152,048
Operating transfers out	0	(10,000)	0	(10,000)
Total other financing sources (uses)	<u>0</u>	<u>142,048</u>	<u>0</u>	<u>142,048</u>
Excess of revenue and other sources over (under) expenditures and other uses	17,949	(8,372)	(10,771)	(1,194)
Fund balances - beginning of year	<u>15,318</u>	<u>23,068</u>	<u>62,118</u>	<u>100,504</u>
Fund balances - end of year	<u>\$ 33,267</u>	<u>\$ 14,696</u>	<u>\$ 51,347</u>	<u>\$ 99,310</u>

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
 For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005 Amended Budget	2005 Actual	2004 Actual
<u>Local Sources</u>			
Current property taxes	\$ 3,629,848	\$ 3,631,683	\$ 3,448,100
Tuition	59,728	59,721	30,399
Medicaid fee for service	40,315	40,314	28,159
Interest on investments	20,575	19,917	7,272
Rents	9,605	9,605	8,367
Contributions	10,826	10,826	0
Miscellaneous	42,399	42,141	52,298
	<u>3,813,296</u>	<u>3,814,207</u>	<u>3,574,595</u>
<u>State Sources</u>			
State aid foundation allowance	6,475,505	6,475,505	6,784,217
At risk	226,183	226,167	262,040
Early childhood education	52,800	52,800	52,800
Career prep	0	0	1,000
Drivers education	0	0	10,647
	<u>6,754,488</u>	<u>6,754,472</u>	<u>7,110,704</u>
<u>Federal Sources</u>			
E.C.I.A. Title I - regular	296,395	296,395	269,224
Title II - Improving teacher quality	97,651	90,646	94,365
Title V - Part A	924	924	1,281
Technology Literacy Challenge	0	7,005	6,702
IDEA Flow-Thru	30,000	30,000	30,000
Medicaid outreach	121	120	350
Schools and roads grant funds	5,200	5,200	3,264
	<u>430,291</u>	<u>430,290</u>	<u>405,186</u>
<u>Interdistrict Sources</u>			
Pre-primary speech and language	33,282	33,281	15,000
Transportation	11,176	12,284	9,902
Vocational education	23,660	23,659	31,907
	<u>68,118</u>	<u>69,224</u>	<u>56,809</u>
<u>Other Financing Sources</u>			
Sale of fixed assets	5,754	5,754	6,621
Transfers from Athletic Fund	10,000	10,000	30,500
	<u>15,754</u>	<u>15,754</u>	<u>37,121</u>
Total Revenue and Other Financing Sources	<u>\$ 11,081,947</u>	<u>\$ 11,083,947</u>	<u>\$ 11,184,415</u>



TAWAS AREA SCHOOLS  
Iosco County, MichiganGENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

<u>Instruction</u>	<u>2005 Amended Budget</u>	<u>2005 Actual</u>	<u>2004 Actual</u>
Basic Programs:			
Elementary:			
Salaries	\$ 1,575,481	\$ 1,575,474	\$ 1,594,114
Employee benefits	568,689	568,683	579,223
Purchased services	36,611	35,580	31,361
Supplies, materials and other	48,331	48,482	57,338
	<u>2,229,112</u>	<u>2,228,219</u>	<u>2,262,036</u>
Junior High:			
Salaries	742,837	742,835	792,781
Employee benefits	287,812	287,808	312,335
Purchased services	12,662	12,162	10,822
Supplies, materials and other	20,303	20,095	21,526
	<u>1,063,614</u>	<u>1,062,900</u>	<u>1,137,464</u>
High School:			
Salaries	1,205,249	1,205,206	1,203,549
Employee benefits	481,758	481,744	486,848
Purchased services	15,746	15,246	12,644
Supplies, materials and other	88,609	88,582	73,572
	<u>1,791,362</u>	<u>1,790,778</u>	<u>1,776,613</u>
Total basic programs	<u>5,084,088</u>	<u>5,081,897</u>	<u>5,176,113</u>
Added Needs:			
Special Education:			
Salaries	839,507	839,496	883,938
Employee benefits	353,927	353,886	368,137
Purchased services	37,381	35,640	24,518
Supplies, materials and other	3,171	3,068	8,299
	<u>1,233,986</u>	<u>1,232,090</u>	<u>1,284,892</u>
E.C.I.A. Title I:			
Salaries	182,157	182,156	155,403
Employee benefits	78,213	78,207	66,140
Purchased services	539	538	859
Supplies, materials and other	18,608	18,617	27,885
	<u>279,517</u>	<u>279,518</u>	<u>250,287</u>
Title II - Part A & D:			
Salaries	68,434	68,433	65,267
Employee benefits	12,212	12,212	19,098
Professional development	10,000	10,000	10,000
	<u>90,646</u>	<u>90,645</u>	<u>94,365</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005 Amended Budget	2005 Actual	2004 Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Technology Literacy Challenge:			
Professional development	\$ 1,751	\$ 1,751	\$ 1,676
Supplies, materials and other	5,254	5,254	5,026
	<u>7,005</u>	<u>7,005</u>	<u>6,702</u>
 Title V - Part A:			
Media expense	<u>924</u>	<u>924</u>	<u>1,281</u>
 Vocational Education:			
Salaries	141,772	141,768	119,170
Employee benefits	55,845	55,838	45,060
Purchased services	251,260	251,260	294,840
Supplies, materials and other	<u>3,956</u>	<u>3,954</u>	<u>5,831</u>
	<u>452,833</u>	<u>452,820</u>	<u>464,901</u>
 Young 4's Program:			
Salaries	27,376	27,373	30,688
Employee benefits	13,539	13,535	13,562
Supplies, materials and other	<u>5,637</u>	<u>5,643</u>	<u>1,900</u>
	<u>46,552</u>	<u>46,551</u>	<u>46,150</u>
 At Risk - Section 31A:			
Salaries and benefits	<u>226,183</u>	<u>226,183</u>	<u>262,040</u>
 Total added needs	<u>2,337,646</u>	<u>2,335,736</u>	<u>2,410,618</u>
 Adult Continuing Education:			
Basic:			
Salaries	2,041	2,041	3,126
Employee benefits	458	457	645
Purchased services	14,164	13,761	13,716
Supplies, materials and other	<u>487</u>	<u>502</u>	<u>943</u>
	<u>17,150</u>	<u>16,761</u>	<u>18,430</u>
 Total instruction	<u>7,438,884</u>	<u>7,434,394</u>	<u>7,605,161</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005 Amended Budget	2005 Actual	2004 Actual
<u>Support Services</u>			
Pupil Services:			
Guidance Services:			
Salaries	\$ 53,573	\$ 53,572	\$ 148,787
Employee benefits	18,086	18,195	58,141
Supplies, materials and other	228	227	0
	<u>71,887</u>	<u>71,994</u>	<u>206,928</u>
Health Services:			
Purchased services	<u>3,500</u>	<u>3,417</u>	<u>2,713</u>
Psychological Services:			
Purchased services	<u>49,800</u>	<u>47,285</u>	<u>47,953</u>
Total pupil services	<u>125,187</u>	<u>122,696</u>	<u>257,594</u>
Instructional Staff:			
Improvement of Instruction:			
Salaries	<u>5,025</u>	<u>5,024</u>	<u>6,736</u>
Library:			
Supplies, materials and other	<u>8,993</u>	<u>9,769</u>	<u>9,930</u>
Audio-Visual:			
Supplies, materials and other	<u>71</u>	<u>71</u>	<u>224</u>
Total instructional staff	<u>14,089</u>	<u>14,864</u>	<u>16,890</u>
General Administration:			
Board of Education:			
Salaries	0	0	1,770
Purchased services	<u>34,440</u>	<u>33,664</u>	<u>32,057</u>
	<u>34,440</u>	<u>33,664</u>	<u>33,827</u>
Executive Administration:			
Salaries	126,300	126,296	126,296
Employee benefits	47,773	47,771	51,320
Purchased services	18,876	18,870	21,200
Supplies, materials and other	<u>15,499</u>	<u>15,678</u>	<u>19,227</u>
	<u>208,448</u>	<u>208,615</u>	<u>218,043</u>
Total general administration	<u>242,888</u>	<u>242,279</u>	<u>251,870</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005 Amended Budget	2005 Actual	2004 Actual
<u>Support Services</u> (Continued)			
School Administration:			
Salaries	\$ 650,901	\$ 650,280	\$ 641,130
Employee benefits	278,814	278,662	264,033
Purchased services	0	0	75
Supplies, materials and other	11,675	11,640	28,634
Total school administration	941,390	940,582	933,872
Business:			
Fiscal Services:			
Salaries	68,686	68,686	66,121
Purchased services	75,404	75,404	75,716
Supplies, materials and other	19,625	19,624	19,321
	163,715	163,714	161,158
Operation and Maintenance:			
Salaries	325,786	325,796	363,493
Employee benefits	71,099	71,099	74,327
Purchased services	261,531	261,800	241,281
Supplies, materials and other	60,650	60,227	55,642
	719,066	718,922	734,743
Computer Technology:			
Salaries	90,392	90,391	90,418
Employee benefits	19,896	19,896	18,656
Supplies, materials and other	17,024	17,135	2,672
	127,312	127,422	111,746
Transportation:			
Salaries	333,908	333,710	327,564
Employee benefits	71,698	71,650	63,166
Purchased services	60,924	61,146	54,632
Supplies, materials and other	129,797	130,014	86,383
	596,327	596,520	531,745
Total business	1,606,420	1,606,578	1,539,392
Employee benefits	341,891	341,170	400,790
Total support services	3,271,865	3,268,169	3,400,408

TAWAS AREA SCHOOLS  
Iosco County, Michigan

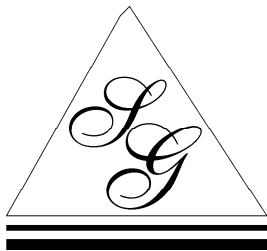
GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004

	2005 Amended Budget	2005 Actual	2004 Actual
<u>Community Services</u>			
Crossing Guard:			
Salaries	\$ 2,055	\$ 2,055	\$ 1,987
Employee benefits	458	457	408
Total community services	<u>2,513</u>	<u>2,512</u>	<u>2,395</u>
<u>Capital Outlay</u>			
Instruction	0	0	8,613
Support services	<u>173,777</u>	<u>173,278</u>	<u>14,368</u>
Total capital outlay	<u>173,777</u>	<u>173,278</u>	<u>22,981</u>
<u>Transfers</u>			
Athletic Fund	<u>152,051</u>	<u>152,048</u>	<u>186,326</u>
Total Expenditures and Transfers	<u>\$ 11,039,090</u>	<u>\$ 11,030,401</u>	<u>\$ 11,217,271</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 SPECIAL REVENUE FUNDS  
For the Year Ended June 30, 2005

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>			
Local sources:			
Lunch sales	\$ 224,355	\$ 224,351	\$ (4)
Gate receipts	55,000	56,277	1,277
Interest on investments	329	344	15
Contributions	15,000	10,000	(5,000)
Other	24,348	17,258	(7,090)
State sources	33,360	33,360	0
Federal sources	<u>220,748</u>	<u>220,570</u>	<u>(178)</u>
Total revenue	<u>573,140</u>	<u>562,160</u>	<u>(10,980)</u>
<u>Expenditures</u>			
Current:			
Food services	475,428	473,926	1,502
Athletics	<u>227,627</u>	<u>220,705</u>	<u>6,922</u>
Total expenditures	<u>703,055</u>	<u>694,631</u>	<u>8,424</u>
Excess of revenue over (under) expenditures	<u>(129,915)</u>	<u>(132,471)</u>	<u>(2,556)</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	149,627	152,048	2,421
Operating transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>0</u>
Total other financing sources (uses)	<u>139,627</u>	<u>142,048</u>	<u>2,421</u>
Excess of revenue and other sources over expenditures and other uses	9,712	9,577	(135)
Fund balances - beginning of year	<u>38,386</u>	<u>38,386</u>	<u>0</u>
Fund balances - end of year	<u>\$ 48,098</u>	<u>\$ 47,963</u>	<u>\$ (135)</u>



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

August 3, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated August 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

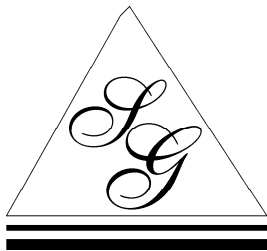
In planning and performing our audit, we considered Tawas Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of Tawas Area Schools, in a separate letter dated August 3, 2005.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, pass-through entities and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

August 3, 2005

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of Tawas Area Schools for the year ended June 30, 2005, and have issued our report thereon dated August 3, 2005. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Tawas Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Tawas Area Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Tawas Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Tawas Area Schools' compliance with those requirements.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tawas Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Tawas Area Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.



Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Tawas Area Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments proposed, whether recorded or unrecorded by Tawas Area Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require that consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Tawas Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of controls and compliance as described in the third and fourth paragraphs, one matter came to our attention upon which we would like to comment and offer the following recommendations.

Superintendent Contract

During the course of our audit, we noted the annual review process by the Board of Education for the Superintendent was not completed in accordance with the Board of Education policy, and in effect, the Superintendent's contract had not been renewed for the fiscal year ending June 30, 2005. Subsequent to year-end, the review was completed, and the Superintendent's contract was renewed retroactive to fiscal year ending June 30, 2005 and continuing on through fiscal year ending June 30, 2006. We recommend that for future years the Superintendent's evaluation be completed by the Board annually in accordance with Board policy.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the School District.

This information is intended solely for the use of the Board of Education, management, federal awarding agencies, pass-through entities and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grubb & Co., P.C.*